



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER BREATHTT COUNTY SHERIFF**

For the Period of January 1, 1998 Through August 25, 1998

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

Kevin Flanery, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert Cornett, Breathitt County Judge/Executive

Honorable John L. Turner, Breathitt County Sheriff

Honorable Jack Brown, Former Breathitt County Sheriff

Members of the Breathitt County Fiscal Court

The enclosed report prepared by Tamara L. Rice, Certified Public Accountant, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Breathitt County, Kentucky, as of December 31, 1998.

We engaged Tamara L. Rice, CPA, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tamara L. Rice, CPA, evaluated the Breathitt County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
FORMER BREATHITT COUNTY SHERIFF**

For The Period of January 1, 1998 Through August 25, 1998

TAMARA L. RICE
CERTIFIED PUBLIC ACCOUNTANT
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EXECUTIVE SUMMARY

BREATHITT COUNTY JACK BROWN, FORMER SHERIFF FOR THE PERIOD JANUARY 1, 1998 THROUGH AUGUST 25, 1998 FEE AUDIT

On December 12, 2000 fieldwork was completed on the Sheriff's fee audit for the period of January 1, 1998 through August 25, 1998. An unqualified opinion was rendered on the financial statements. One reportable condition relating to the audit of the financial statements was reported.

Deposits

The Sheriff's deposits were fully insured and collateralized as of December 31, 1998 but was not evidenced by a written agreement.

Excess Fees:

Excess fees for the period January 1, 1998 through August 25, 1998 was \$8,425. The former Sheriff turned over \$8,674 to the County Treasurer on October 1, 2000. This was an overpayment of \$249. The overpayment is remaining salary for the former Sheriff.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Breathitt County Kentucky, for the period January 1, 1998 through August 25, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the period January 1, 1998 through August 25, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Robert Cornett, Breathitt County Judge/Executive
Honorable Jack Brown, Former Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated December 12, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice
Certified Public Accountant

Audit fieldwork completed -
December 12, 2000

BREATHITT COUNTY
JACK BROWN, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 1998 Through August 25, 1998

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$	8,399
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Circuit Court Clerk:

Sheriff Security Service	\$ 3,655	
Fines/Fees Collected	690	4,345

County Clerk - Delinquent Taxes		2,691
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Commission On Taxes Collected		21,705
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Fiscal Court		75
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Fees Collected For Services:

Auto Inspections	\$ 2,330	
Accident /Police Reports	2	
Serving Papers	8,240	
Conveying Patients	4,573	
Advertising Fees	534	
Carry Concealed Deadly Weapon Permits	1,080	16,759

Interest Earned		1,321
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Borrowed Money:

State Advancement		17,427
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Gross Receipts Carried Forward	\$	72,722
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BREATHITT COUNTY
 JACK BROWN, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 1998 Through August 25, 1998
 (Continued)

Gross Receipts Brought Forward	\$	72,722
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Disbursements

Operating Disbursements and Capital Outlay:

Personal Services-

Deputies' Gross Salaries	\$	14,293
Other Gross Salaries		1,750

Employee Benefits-

Employer's Share Social Security		3,587
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Contracted Services-

Advertising		134
Vehicle Maintenance and Repairs		4,305

Supplies and Materials-

Office Materials and Supplies		867
Deputies Supplies		2,916

Other Charges-

Dues		400
Postage		416
Bond		2,275
Carry Concealed Deadly Weapon Permits		840
Miscellaneous		30

Total Disbursements		<u>31,813</u>
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Net Receipts	\$	40,909
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Less: Statutory Maximum		<u>32,484</u>
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Excess Fees Due County for Period Ending August 25, 1998	\$	8,425
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Payments to County Treasurer- October 1, 1998		<u>8,674</u>
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Overpayment of Excess Fees	* \$	<u><u>(249)</u></u>
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* The Sheriff is due remaining salary for 1998 in the amount of \$249.

The accompanying notes are an integral part of the financial statement.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

August 25, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
August 25, 1998
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

Note 4. Repayment of State Advancement

Our financial statement shows that the former Sheriff received \$17,427 from the State as an advancement. However, he left office prior to the collection of 1998 taxes and did not repay the advancement from fees collected during his time in office during 1998. The balance was paid to the state by the current sheriff who took office August 28, 1998.

BREATHITT COUNTY
JACK BROWN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 1998 Through August 25, 1998

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$421,795; FDIC insurance of \$100,000; and securities pledged of \$1,500,000 as of January 9, 1998. Even though the Sheriff obtained pledged securities of \$1,500,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

We did not receive this form, nor was told of this form, and it was not done in the past. We had no knowledge we should do this or it would have been done.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Robert Cornett, Breathitt County Judge/ Executive
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Members of the Breathitt County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Breathitt County Sheriff for the period January 1, 1998 through August 25, 1998, and have issued our report thereon dated December 12, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Breathitt County Sheriff's financial statement for the period January 1, 1998 through August 25, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Breathitt County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.


We concluded that the internal control structure lacks a proper segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, there is limited staff size, which prevents an adequate segregation of duties. The former Sheriff had statutory authority to assume the role of custodian of monetary assets as well as recorder of transactions and preparer of financial statements. However, the lack of segregation of duties is hereby noted as a reportable condition.

Honorable Robert Cornett, County Judge/ Executive
Honorable Jack Brown, Former Breathitt County Sheriff
Members of the Breathitt County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the lack of adequate segregation of duties to be material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice
Certified Public Accountant

Audit fieldwork completed -
December 12, 2000

